

Summary of the Report of
The Interim Subcommittee on Banking
Representative Chris Liese, Chairman

November 1999

The subcommittee held three separate meetings, the purpose being to study the practices of "Pay Day and Title Lenders". A payday loan is a 14 day, unsecured loan for less than \$500, typically for either \$50 or \$100. The approved rates for payday loans are a \$10 fee plus 5%, a \$50 loan the fees and interest will total \$12.50. A title loan is a 30 day loan for less than \$5000. Title loans are secured by a unencumbered motor vehicle title. The fees and interest are earned at the time the loan is made and there are no refunds. The amount charged for a title loan is 11 1/2% and a fee not to be deemed as interest to defray the ordinary costs of operations.

The main issue is the concern of high interest, some where between 20% and 25% monthly. Due to the length of these loans, and the risk involved, the industry claims it's necessary to charge these rates to be profitable. Also, interest measured by annual percentage rates can not be an equitable means of formulating rates. Very seldom would any of these loans ever be refinanced over a 12 month period.

The industry claims that they are providing a service that banks, savings and loans, and credit unions will not.

The title and payday loan industry is new, highly specialized, and market driven industry, providing a needed service that can't be found elsewhere.

The committee feels there is a need for some statutory modifications (consumer protections), and would like to make the following recommendations:

- (1) Require lenders licensed under chapter 367 to maintain a surety bond or an irrevocable letter of credit which is satisfactory with the Commissioner of Finance.
- (2) Require consumer protection provisions to be placed under the title loan

statute. These consumer protections would include;

The lender's right to cure on a default;

Disclosure and the conspicuous posting of interest rates; and

Refunding on prepayments and surpluses on repossession sales be refunded to the borrower.

(3) Require all title lenders to issue to potential customers a "Notice to Borrower" form. This form, read and signed by the borrower before the loan is initiated, shall explain in layman's terms all the conditions of the loan.

(4) Prohibit the operation of title loan companies and used car dealerships on the same premises.

(5) Increase the regulatory authority of the Commissioner of Finance over payday and title lenders by giving him the power to levy fines, suspend and revoke licenses of violators.

(6) Require payday lenders not to knowingly permit borrowers to be indebted on more than two loans at any one time.

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